

CLO PMs increasing AI use to find a tight loan arbitrage

by David Graubard, May 29, 2019

CLO portfolio managers are keen to use artificial intelligence to boost returns for investors by selecting the optimal combinations of assets faster and cheaper. Development teams at firms like Sky Road and KPMG are selling new tools to do so.

AI-based portfolio optimisation tools are more than a hundred times faster than months earlier, say industry insiders. Meaning PMs are now able to work on the optimisation of massive complex portfolios in real-time for the first time.

The two companies were most recently marketing their AI CLO advances at IMN's May Investors' Conference on CLOs and Leveraged Loans in New York City.

Sky Road, an alternative investment management software provider, debuted its optimisation tool at a CLO conference in late-November. Since its product launch, Sky Road has engaged over 20 CLO managers that range from the top tier to brand new platforms.

The problem PMs want AI-optimisation engines to solve is the burden of mostly manually ranking credits within market constraints with a near-infinite number of possible loan combinations.

PMs building a securitisation start with choices that exceed "the number of atoms on earth," says KPMG.

"Getting the speed of the model from minutes down to seconds was the breakthrough users needed to see from us," says Sky Road's principal and director of product strategy, Eiman Abdelmoneim. "Portfolio managers can now move from waiting for results on a batch of loans to being able to interact in real-time with their portfolios."

KPMG claims a client saved millions of dollars using its optimisation engine recently. The investment manager "selected 900 loans from a pool of 3,800 lowering the securitisation's loss coverage to 16% from 22%, which saved \$22m."

KPMG's CLO optimisation tool is repackaged from its securitisation data and analytics division, while Sky Road leverages its experience in derivatives and machine learning.

"AI for CLOs is useful to rank loans faster within constraints," says a CLO portfolio manager. "However, the AI vendors still have a long way to go before fully automating loan selection for a deal."